

ISSUES FOR INTERAGENCY CONSIDERATION



A SUPPLEMENT TO THE
NPC'S REPORT:
FUTURE ISSUES—
A VIEW OF U.S. OIL
&
NATURAL GAS
TO 2020

NATIONAL PETROLEUM COUNCIL

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U.S. DEPARTMENT OF ENERGY

Hazel R. O'Leary, *Secretary*

The National Petroleum Council is a federal
advisory committee to the Secretary of Energy.

The sole purpose of the National Petroleum Council
is to advise, inform, and make recommendations to
the Secretary of Energy on any matter requested
by the Secretary relating to
oil and natural gas or to the oil and gas industries.

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January 31, 1996

The Honorable
Hazel R. O'Leary
Secretary of Energy
Washington, D.C. 20585

Dear Madam Secretary:

On behalf of the members of the National Petroleum Council, I am pleased to transmit to you herewith the Council's response to your November 7, 1995 request for a list of specific top-priority oil and gas issues to be addressed by an interagency working group. Your positive and timely response to the recommendation in the Council's recent *Future Issues* report for the formation of such a working group is most gratifying. I am impressed with the initial membership of the group as identified by Assistant Secretary Patricia Fry Godley.

The Council's prioritized list of issues was developed through a poll of the membership. This was done in order to respond to your request as quickly as possible while also ensuring that all Council members had an opportunity to have their views reflected. In the results of the poll, three issues stand out as uppermost in the minds of Council members for interagency consideration:

- Regulation of consumer fuel choice
- Cumulative impact of regulations
- Access to resources.

The Council stands ready to assist the interagency working group as it begins its work. We would be glad to provide the interagency group with a briefing on the methodology and results of its issue prioritization process as well as on the Council's *Future Issues* report. Once an issue is chosen for consideration by the interagency group, the Council also stands ready to assist by identifying potential industry participants to work with the group and to provide more specifics on the issue.

The National Petroleum Council sincerely hopes the enclosed information will be of value and assistance to the Department of Energy and the interagency working group as it attempts to improve coordination of policies and regulations affecting the competitiveness of the oil and gas industry and, thus, the nation's economy.

Yours truly,



H. Laurance Fuller
Chair

Enclosures

cc: National Petroleum Council

Table of Contents

Background	1
Process	2
Results of Poll.....	2
Issue Write-Ups	
Issue A: Regulation of Consumer Fuel Choice.....	4
Issue B: Cumulative Impact of Regulations	6
Issue C: Access to Resources	8
Issue D: Expensing Geological and Geophysical (G&G) Costs.....	10
Issue E: Unilateral U.S. Trade and Investment Restrictions.....	11
Issue F: Global Climate Change	12
Issue G: Regulation of Industrial Emissions.....	13
Issue H: Capture the Benefits of Recent Initiatives in Environmental Regulation.....	14
Issue I: Natural Resource Damage Assessment	15
Issue J: Health and Safety Regulation.....	16
Issue K: Conflicts Involving Pipeline Siting.....	17
Issue L: Government Use of EIA Price Forecasts	18
Issue M: Toxic Release Inventory (TRI) SIC Code Extension.....	19
Issue N: Different Agency Definitions and Classifications for Chemical Products.....	20
Issue O: Conflicting Regulations Relating to the Handling of Explosives	21
Issue P: Publication of Pipeline Form 2 Data	22
Issue Q: IRS Section 482 Transfer Pricing Regulations	23
Issue R: Conflicts in Diesel Fuel Regulation—Problematic dyeing of non-taxable diesel fuel.....	24

Appendix A

- November 7, 1995, Letter from Secretary O’Leary
Requesting Prioritization of IssuesA-1
- January 5, 1996, Letter from Assistant Secretary Godley
Identifying Initial Members of Interagency Working Group.....A-3

Appendix B

- NPC Membership RosterB-1
- Future Issues Coordinating Subcommittee RosterB-8

Appendix C

- December 15 Letter Polling NPC Membership.....C-1
- Issues Ballot.....C-2
- Issues DesignationC-3

Appendix D

- Spreadsheet Providing Response Details of Issue Poll.....D-1
- Write-In Issues and/or Comments.....D-5

ISSUES FOR INTERAGENCY CONSIDERATION

BACKGROUND

On August 9, 1995, the National Petroleum Council approved and submitted to the Secretary of Energy its report, *Future Issues—A View of U.S. Oil & Natural Gas to 2020*. This report, which was prepared in response to a request from Secretary Hazel R. O'Leary, made specific recommendations on policy and regulatory actions as well as industry and government leadership steps to address future issues. The report analyzed the oil and gas industry's role in the nation's economy, identified the issues and policies that will most likely shape the industry over the next 25 years, and provided approaches to resolution of these issues.

One of the report's principal recommendations calls for government to improve the process by which issues of importance to the industry and the nation are resolved. The report stated:

Government should improve coordination of policies affecting the oil and gas industry. Policy decisions that affect the oil and gas industry are made in many different departments and agencies of the federal government. Improved coordination would provide an opportunity to better resolve conflicting policies with a fuller understanding of energy's role in the economy and of the impact of policy measures on the industry. The coordination might be achieved through a working group of high-level government officials from federal departments and agencies whose operations affect the oil and gas industry, such as the Environmental Protection Agency and the Departments of Energy, State, Defense, Treasury, Commerce, and Interior.

By letter dated November 7, 1995, Secretary O'Leary stated that, consistent with the Council's recommendation, the Department of Energy was forming a permanent interagency working group to "address policy or regulatory issues...that significantly affect industry competitiveness and require coordinated consideration or action by the government." Further, the Secretary requested the Council to provide her Department "with a list of top-priority issues to be addressed by the working group." (See Appendix A for the complete text of Secretary O'Leary's letter. Appendix A also includes Assistant Secretary Patricia Fry Godley's January 5, 1996 letter advising the Council of the initial membership of the interagency working group.)

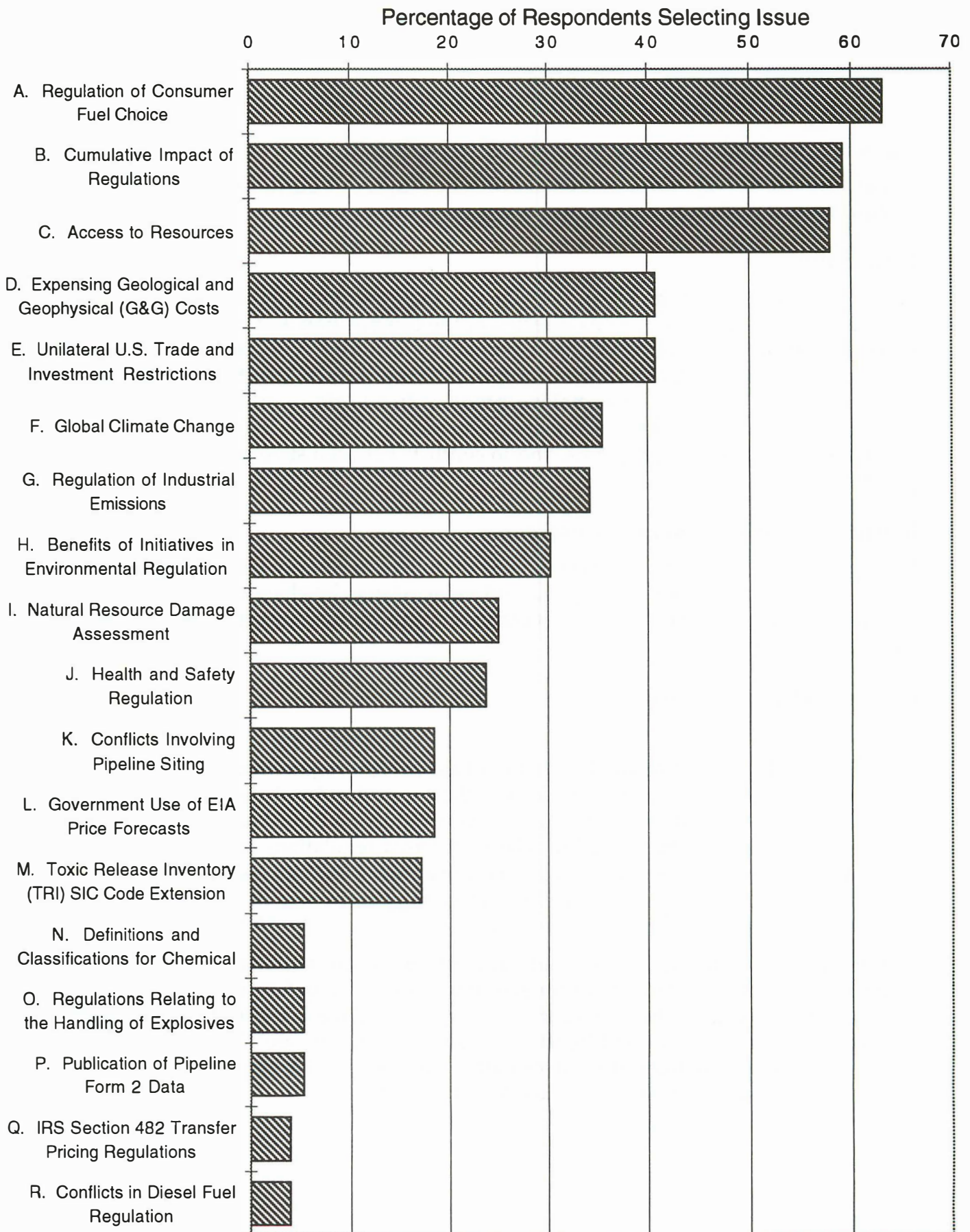
PROCESS

NPC Chair H. Laurance Fuller referred the Secretary's supplemental request to the Chair of the Council's Committee on Future Issues, Philip J. Carroll, who reactivated its Coordinating Subcommittee to assist in this response. (See Appendix B for rosters of the National Petroleum Council and the Future Issues Subcommittee.) Based on the work developed during the course of the Future Issues study, the Subcommittee prepared a list of 18 potential issues that the interagency working group might wish to address. Write-ups of each issue were sent to all Council members, who were asked to select the five that they considered to be the most important policy or regulatory issues requiring coordinated consideration or action by the government. Members were also provided the opportunity to submit write-in issues if they felt that some important issues were not included. (See Appendix C for a copy of the December 15, 1995 letter and ballot sent to the NPC membership.)

RESULTS OF POLL

Seventy-six members of the Council responded to the poll. A summary of their responses is provided in the following figure, which displays the issues ranked by the percentage of respondents selecting each. Write-ups of each issue follow the chart providing a list of agencies involved, an issue description, the impact on industry competitiveness, and examples of possible actions to be taken. These write-ups are identical to those provided to the Council except for being redesignated A-R to reflect the results of the prioritization vote. (See Appendix D for a spreadsheet of response details and a listing of write-in issues and comments.)

Prioritization of Issues by NPC Member Poll



ISSUE WRITE-UPS

Issue A: Regulation of Consumer Fuel Choice

Agencies Involved:

Department of Energy, Environmental Protection Agency (EPA), Department of Agriculture, and state governments.

Description:

The implementation of the Clean Air Act and the Environmental Protection Act of 1992 has given rise to regulations directed at the composition and choice of fuels in specific areas or by specific users (fleet mandates), including fuel-specific subsidies. EPA has not fully incorporated the concepts of sound science, cost-benefit analysis, and risk assessment into its rulemaking process. In addition, consumer reaction to control strategies has not been adequately considered. This has led to excessive regulation, to changes in programs, and to conflicts between state and federal programs.

Impact on Industry Competitiveness:

Industry is being required to invest billions of dollars to comply with regulatory requirements, some of which are of suspect value or may be abandoned by EPA in the face of public opposition, and this carries a significant opportunity cost for the industry and the nation.

Examples of Possible Actions:

Near-Term Priorities

- Eliminate RFG (reformulated gasoline) Phase II NO_x requirements. The EPA has gone beyond the intent of lawmakers in the Clean Air Act Amendments of 1990 by proposing regulations that require a NO_x reduction from Phase II reformulated gasoline after the year 2000. These proposed regulations may lead to increased ozone concentrations in some urban areas and will result in higher costs and higher prices to consumers. The cost effectiveness of mobile source NO_x reduction is far less than stationary source controls for NO_x.
- Issue rules governing "opt-in" and "opt-out" from reformulated gasoline program that include requirement for significant lead-time before future changes to program coverage. The petroleum industry must make large investments in manufacturing facilities and logistics to comply with fuel specification regulations. Program changes after investments have been made impose unreasonable and unnecessary costs on the industry and consumers.

- Support national LEV (low emission vehicle) program without fuel specification requirements or alternative fuel vehicle mandates or subsidies. If a national LEV program is implemented, the cars should operate on the wide range of fuels currently available at the market, including conventional gasoline. Further fuel specification requirements would require industry investment and increase the cost of fuel to consumers in states where air quality is not a problem.
- Eliminate fuel-specific subsidies, e.g., ethanol and ETBE.
- Correct duplications and conflicts in EPA and state regulations enforcing the Clean Air Act. For example, California Phase 2 RFG produces greater emission reductions than federal RFG, but the EPA has not yet given the required acknowledgment that the California gasoline complies with federal requirements.
- Ensure that future national/regional/state fuel specifications are based on sound science and cost-effectiveness analysis, and that they are the outcome of a process involving all affected parties. For example, ensure NAAQS (national ambient air quality standards) revisions are based on appropriate risk assessment and cost-benefit analysis.
- Do not promulgate the nationwide diesel NO_x and VOC emission standards for 2004 called for in the Statement of Principles signed by the EPA, the California Air Resources Board, and the Engine Manufacturers Association. These standards are not justified based on their cost and benefits to the entire country.

Long-Term Structural Changes

- Improved scientific and economic basis for future fuels policy, through application of the principles of sound science, risk assessment, and cost-benefit analysis.
- Improved coordination between state and federal governments to avoid conflict and duplication in regulations.

Issue B: Cumulative Impact of Regulations

Agencies Involved:

All.

Description:

There is a lack of coordination in developing regulations to meet a policy goal. Individual agencies, and even sub-agencies and work groups, develop regulations separately, resulting in industry being "nickel and dimed" to death. If a regulation costs \$100 million or more, it is considered a "significant" regulation and undergoes a more extensive agency review. However, we often see one group develop a regulation that costs \$70 million and another group develop one that costs \$80 million, dealing with the same policy goal. Individually these regulations are not "significant," but cumulatively they are.

Some examples of this problem are:

- OSHA's 1910.119 Process Safety Management and EPA's Risk Management Program are essentially identical (as noted in Issue J).
- OPA'90 requires response plans from many facilities that handle oil. Four agencies have or are working on individual regulations and many of the facilities fall under the jurisdiction of two or more of these agencies. These agencies are: Environmental Protection Agency (EPA), Department of Transportation-Research and Special Programs Administration (DOT-RSPA), Department of Transportation-U.S. Coast Guard (DOT-USCG), and Department of the Interior-Minerals Management Service (DOI-MMS). Additionally, states are imposing some of their own requirements which can differ from those required by the federal agencies.
- The Clean Water Act requires water discharge permits (NPDES). There are several states which don't have primacy, resulting in application for two separate permits which are not identical and result in compliance and reporting to both EPA and the state agency.
- Waste regulations are imposed by EPA, DOT-USCG, and state agencies, requiring burdensome record-keeping which is duplicative and unnecessary.
- States have imposed Naturally Occurring Radioactive Material (NORM) regulations under the premise that levels and conditions are state-specific and they are better suited to regulate this waste stream. However, EPA continues work to establish nationwide regulations which will be difficult to implement since each state has different conditions.

Impact on Industry Competitiveness:

Over-regulation of all industry has been estimated to cost the economy hundreds of billions of dollars per year. This includes regulation toward questionable policy goals and inefficient regulation toward worthy goals, as well as the duplicative regulation cited here for one industry. Although difficult to measure, the impact is probably in the billions of dollars.

Examples of Possible Actions:Near-Term Priorities

- Dialogue with industry experts to solve the above-mentioned examples and to identify additional existing duplicative regulations.

Long-Term Structural Changes

- Create a mechanism to prevent the promulgation of overlapping and duplicative regulations by federal and/or state agencies.

Issue C: Access to Resources

Agencies Involved:

Executive, Congress, Department of the Interior (Minerals Management Service [MMS]), Department of Energy, Department of Agriculture, Environmental Protection Agency, Department of Commerce, Fish and Wildlife Service, and Army Corps of Engineers.

Description:

Various Federal and state laws affect industry's access to potentially promising oil and gas resources. Prominent areas currently unavailable for leasing include offshore areas of much of the east and west coasts, the coastal plain of the Arctic National Wildlife Refuge (ANWR) and large areas of onshore federal lands under the control of the Departments of Agriculture and Interior.

Leasing, on the OCS, for example, is a jumble of conflicting policies and objectives, which has thwarted industry efforts to explore for and develop domestic offshore oil and gas resources. Various administrations have advocated increasing domestic oil and natural gas production as a means of reducing reliance on oil imports. Yet, over the last 15 years, OCS policies have been frequently changed by various facets of government in response to environmental pressures. As a result, potentially lucrative areas have been withheld from leasing, and in some cases, withheld from development after leasing, preventing industry from earning a return on their investment.

Impact on Industry Competitiveness:

The decision to bid for, explore, and develop acreage, especially offshore, requires long lead times and a significant commitment of capital. Government policy has created an atmosphere of uncertainty, and is encouraging the flow of capital abroad. A strong domestic exploration and development program requires a comprehensive and consistent approach to access and leasing, which will improve the economics of drilling and producing oil and gas in the United States.

Examples of Possible Actions:

Near-Term Priorities

- OCS: Access to OCS lands has been restricted by Presidential Executive Order and Congressional Action, except for the Central and Western Gulf of Mexico. The MMS is in a two-year process of preparing a new five-year OCS oil and gas leasing program for the period 1997–2002. Proven plays, predominantly gas, have been extended into the Eastern Planning Area of the Gulf of Mexico. There has not been a sale in this area since 1988, while a partial sale is anticipated in the next five-year plan. Ensuring that this sale is conducted is essential.

Long-Term Structural Changes

- OCS: The remaining OCS lands that have been restricted by Presidential Executive Order and the remainder of the Eastern Planning Area of the Gulf of Mexico should seriously be evaluated for leasing.
- Onshore: Access to the coastal plain of the Arctic National Wildlife Refuge and other federally managed lands should be reviewed in light of modern technology and the industry's record of environmental responsibility.

Issue D: Expensing Geological and Geophysical (G&G) Costs

Agencies Involved:

Department of Energy, Department of the Treasury, and Internal Revenue Service.

Description:

G&G costs are similar to research and development costs, which are not only deductible, but for which a tax credit is available to other industries. The Department of the Treasury, under the Natural Gas and Oil Initiative of the Administration, undertook an examination of the tax treatment of geological and geophysical costs.

The IRS has ruled since 1950 that G&G costs must be capitalized and recovered through cost depletion over the life of a field. Only those expenditures that do not lead to the acquisition or retention of property can be deducted as current expense. G&G expenditures allocated to abandoned prospects may be deducted upon abandonment.

Geological studies and geophysical surveys have become increasingly important and together are one of the greatest expenses incurred in drilling a well. More prospects will be reviewed and more reserves will be found if the after tax cost of this activity is lower. Technological advances such as the use of 3-D seismic technology and lower computer costs have helped increase the value of G&G work by:

- locating potential reserves not identifiable under older, 2-D systems
- consequently, improving finding rates, and thus
- reducing the environmental footprint of the industry in developing energy reserves.

Impact on Industry Competitiveness:

Decreasing the after-tax cost of G&G activities directionally increases the competitiveness of the affected energy sources. These costs are an important and integral part of the petroleum industry and its ability to engage, on a daily basis, in the exploration and development of petroleum reserves. They are more in the nature of ordinary and necessary costs of doing business. Lower G&G costs result in greater domestic production and reduced energy imports.

Examples of Possible Actions:

Near-Term Priorities

- Complete Natural Gas and Oil Initiative regarding G&G costs.

Long-Term Structural Changes

- Clarify that G&G expenditures are to be expensed for tax purposes.

Issue E: Unilateral U.S. Trade and Investment Restrictions

Agencies Involved:

National Security Council and Departments of State, Energy, Commerce, and Defense.

Description:

The National Security Council and Department of State need to consult with the Departments of Energy, Commerce, and Defense on the issue of U.S. trade and investment restriction. The United States has applied trade and investment restrictions, usually on a unilateral basis, with oil sanctions having become the weapon of first choice. The State and Treasury Departments are prohibiting the export of oilfield equipment and services to Iran and Libya. Unilateral trade sanctions are not effective for commodities traded widely in world markets, but they do have consequences for U.S. business and for the international trading system.

Impact of Industry Competitiveness:

Unilateral sanctions cause long-term damage to the competitiveness of U.S.-based industry. U.S. companies are being viewed as unreliable suppliers, and written out of specifications; foreign suppliers take over markets previously dominated by U.S. companies. Secondary boycotts cause friction with U.S. economic and political allies, undermining national security.

For example, estimated 1995 oilfield equipment and service market potentials: Iran – \$125 million; Libya – \$78 million; Nigeria – \$428 million.

Examples of Possible Actions:

Near-Term Priorities

- Reconsider current sanctions policy and avoid imposing the secondary sanctions now being advocated by some. Economic consequences—loss of jobs, competitiveness, and isolation—must be fully explained to Congress and the American public to avoid unwise decisions driven by short-term political pressures and special interest lobbies. Ineffectiveness of unilateral sanctions should be recognized.

Long-Term Structural Changes

- Interagency mechanism must be in place that will provide for *serious* consideration of impacts of unilateral sanctions. DOE must be allowed to play a larger role in developing analysis of consequence flowing from proposed unilateral sanctions. In above instances, legislators and administration decision makers are acting on incomplete and/or incorrect data.

Issue F: Global Climate Change

Agencies Involved:

Departments of Energy, State, Treasury, Agriculture, and National Oceanic and Atmospheric Administration, Council of Economic Advisors, Council on Environmental Quality, and Environmental Protection Agency.

Description:

The U.S. is engaged in a multilateral process for developing a proposal concerning further commitments to control greenhouse gas emissions (the Berlin Mandate). The U.S. position in these negotiations should reflect a full range of input about the state of knowledge of scientific study of global climate and modeling and about the economic effects of any policies undertaken in response to potential climate change. National and economic competitive implications must be understood in advance of any further international agreements.

Impact on Industry Competitiveness:

Premature or unnecessary policy steps have the potential to do serious damage to the U.S. economy and severely impair the competitiveness of all U.S. industry, particularly if other countries do not enforce greenhouse gas policies as aggressively.

Examples of Possible Actions:

Near-Term Priorities

- Broad input from a full range of government interests (including both the legislative and executive branches) and non-governmental bodies to the U.S. negotiating team to assure that the national economic and competitive implications for the U.S. are fully understood in advance of any further international agreements.
- Develop alternatives to the targets and timetables approach being considered in the current negotiating process. Because the Framework Convention does not require the developing nations to take any actions to reduce emissions, the burden of binding reduction targets will fall on the industrialized countries. The cost of reductions in the industrialized countries is higher than the cost of restraining the growth of emissions in the developing world. With joint implementation unlikely to be a viable alternative to targets and timetables for some time, the problem is to develop other options that might result in lower cost implementation of greenhouse gas emissions policy.

Long-Term Structural Changes

- Improved scientific and economic basis for future greenhouse gas policy, through application of the principles of sound science, risk assessment, and economic analysis.

Issue G: Regulation of Industrial Emissions

Agencies Involved:

Department of Energy, Environmental Protection Agency (EPA), and Occupational Safety and Health Administration (OSHA).

Description:

There are several priority regulatory issues related to the implementation of the Clean Air Act, Clean Water Act, RCRA, and Occupational Safety and Health Act. The regulated community needs the flexibility to employ technological innovation to achieve environmental goals in a more cost-effective manner.

Impact on Industry Competitiveness:

Inefficient or excessive regulations damage the ability of U.S.-based industry to compete with foreign-based industry.

Examples of Possible Actions:

Near-Term Priorities

- Overhaul operating permit program: exclude minor modification from the process; narrow EPA veto authority; delay impact of new requirements on existing permits; streamline review process to avert limitations on operating flexibility.
- Eliminate unnecessary controls in the MACT (maximum achievable control technology) program, and maximize the compliance schedule.
- Promote accidental release/risk management regulations [Section 112(r)] which scale back the program to focus on catastrophic accidents at large chemical and manufacturing operations while excluding low risk facilities; harmonize program with OSHA process safety management; decouple accidental release/risk management regulations from Title V Operating Permit Program.
- Correct duplications and conflicts in EPA and state regulations enforcing the Clean Air Act. Refinery releases under startup, shutdown, or malfunction conditions permitted by many state regulations, but not by the EPA, have been the subject of federal enforcement action. No final regulation has been issued to define the scope of federally permitted release.
- Eliminate Phase II stormwater requirements for retail outlets.
- Avoid Phase III/IV LDR (land disposal restrictions) surface impoundment controls.

Long-Term Structural Changes

- Improved scientific and economic basis for future emissions policy, including concepts related to toxic exposure and control, through application of the principles of sound science, risk assessment, and cost-benefit analysis.

Issue H: Capture the Benefits of Recent Initiatives in Environmental Regulation

Agencies Involved:

Environmental Protection Agency (EPA) and Council on Environmental Quality (CEQ).

Description:

EPA has initiated a variety of programs to move environmental regulation toward a more performance-based approach. Included are the Common Sense initiative (industry sector based) and Project XL (facility based). These or other initiatives may be expanded to include region-based regulatory approaches and new enforcement strategies. Such initiatives, while somewhat limited to date, open the door to serious discussion of a new regulatory system. DOE and the petroleum industry should encourage this discussion.

The danger is that these initiatives may fail to add up to a whole that is more than the sum of the parts. It is important to evolve an overall framework into which these parts fit. And as that framework develops, there will probably emerge a need for changes in existing legislation to allow EPA to regulate in a more flexible and integrated way. Several groups (e.g., Center for Strategic and International Studies) have projects underway to suggest a framework and the associated legislative changes. Most of this work is aimed for 1997.

Impact on Industry Competitiveness:

The industry needs a more efficient regulatory process to enhance its competitive position, as the *Future Issues* report points out.

Examples of Possible Actions:

DOE should work with EPA and CEQ to ensure that the initiatives already underway, plus others coming on line, add up to a coherent framework for environmental regulation, and not just a series of responses to current pressures.

Near-Term Priorities

- DOE should participate with EPA and CEQ in evaluating the results of the current initiatives.

Long-Term Structural Changes

- Over the next year, DOE should strive to set up a process within the Administration to ensure a full dress review of the system early in 1997. DOE should also become involved in the various study groups already at work.

Issue I: Natural Resource Damage Assessment

Agencies Involved:

Department of Energy, National Oceanic and Atmospheric Administration (NOAA), Department of the Interior, and state governments.

Description:

U.S. resource restoration policy has lost its focus on the replacement of lost or interrupted human services and has gotten lost in speculative concepts of economic value and even more speculative methods to measure those values. Resource restoration policy needs to focus on simple and clearly understood concepts, like replanting damaged vegetation and protecting injured species, that directly compensate the general public for lost non-commercial uses of the environment impacted by a spill or release.

Impact on Industry Competitiveness:

Uncertainty and potentially large and unjustified liabilities make it more difficult and expensive to obtain insurance coverage and make the United States a less attractive location for doing business.

Examples of Possible Actions:

Near-Term Priorities

- Adoption of NOAA draft regulations that focus on restoration and actual damages rather than hypothetical lost use or "non-use" values.

Long-Term Structural Changes

- Compensation should be based on sound legal and economic principles.

Issue J: Health and Safety Regulation

Agencies Involved:

Department of Energy, Occupational Safety and Health Administration (OSHA), and Environmental Protection Agency (EPA).

Description:

Regulations arising from the Occupational Safety and Health Act impose detailed requirements on industry, not always founded on sound science and risk assessment. Also, the EPA's Risk Management Program and OSHA's Process Safety Management are duplicative and often conflicting.

Impact on Industry Competitiveness:

Excessive or unnecessarily restrictive regulations impose extra costs on businesses in the U.S. and disadvantage them relative to foreign producers. Often-conflicting regulations cannot be complied with.

Examples of Possible Actions:

Near-Term Priorities

- Consistent with best current science, ease regulatory provisions regarding asbestos, with respect to gasket and pipe-wrap removal procedures, medical surveillance, and training.
- Identify and correct duplications and conflicts in existing EPA and OSHA regulations under these two programs.
- Reform the hazard communication program with respect to paperwork requirements for Material Safety Data Sheets/labeling and training requirements.

Long-Term Structural Changes

- Improved scientific and economic basis for future health and safety policy, through application of the principles of sound science, risk assessment, and cost-benefit analysis.
- OSHA and EPA should work together to have one program, or two complementary but not duplicative or conflicting programs, to meet the same policy goal.

Issue K: Conflicts Involving Pipeline Siting

Agencies Involved:

Office of Pipeline Safety (OPS), Federal Energy Regulatory Commission (FERC), Bureau of Land Management (BLM), Environmental Protection Agency (EPA), United States Army Corps of Engineers, Department of Interior's Fish and Wildlife Service, and the Advisory Council on Historic Preservation (ACHP).

Description:

Government agencies give pipelines conflicting signals with respect to the siting of pipeline routes. There is a strong need for agreed-upon and published guidelines for coordinating the siting and environmental review of pipeline projects.

Different agencies may request similar information, yet each agency has a unique permitting process, resulting in duplication of paperwork and fieldwork. For example, the BLM may choose to conduct supplemental review of the FERC's Environmental Impact Statement (EIS) before issuing a right-of-way permit for a pipeline to cross federal land. Additionally, the ACHP may exercise their opportunity to comment on the effects of agency action on historic properties under the National Historic Preservation Act.

FERC regulations governing the construction of new pipelines often impose requirements that are in conflict with other agency regulations. For example, in some instances, FERC requirements for returning the land to a natural state are at cross purposes with OPS and state policies. Additionally, in some cases, FERC requires new pipelines to be laid in close proximity of operating pipelines, potentially increasing the risk of an accident. These FERC rules appear to be counter to the intent of the pipeline safety regulations that are monitored by the OPS.

Impact on Industry Competitiveness:

Better coordination between the governing agencies would create a more optimal balance of pipeline safety with environmental siting concerns, as well as reduce expensive delays and uncertain outcomes for new projects. The consequences unnecessarily increase costs to consumers and hurt the ability of natural gas, crude oil, and petroleum products to compete against other fuels that do not have this burden.

Examples of Possible Actions:

FERC appears to be adopting an increasing number of requirements that appear to supersede OPS, EPA, and state requirements for pipeline rights of way.

Near-Term Priorities

- More consistent guidelines need to be developed.

Long-Term Structural Changes

- The agencies need to determine which will provide overall leadership/authority regarding safety and environmental issues.

Issue L: Government Use of EIA Price Forecasts

Agencies Involved:

Energy Information Administration (part of the Department of Energy), and Department of Commerce.

Description:

Unrealistic fuel price forecasts are used by the government for planning/policy purposes. The Energy Information Administration (EIA) publishes price forecasts for a variety of fuels. While the forecasts are developed in an effort to better understand the dynamics of the various energy industries, the published forecasts are in fact used by other government agencies as a predictive tool. In particular, the Department of Commerce issued an October 1995 document stating that its EIA energy price forecasts "are to be followed by all federal agencies, unless specifically exempted in evaluating the cost effectiveness of potential energy and water conservation and renewable energy investments in federally owned and leased buildings." Prices were expected to increase in real dollars as follows in the industrial sector from 1995 to 2010:

Electricity	7%	Natural Gas	55%	Steam Coal	6%
Distillate Oil	40%	Residual Oil	48%		

These forecasts are in sharp conflict with projections used by industry and other worldwide agencies.

Impact on Industry Competitiveness:

These federal government forecasts are showing up in ads in the press claiming that natural gas will be much more expensive than coal-fired electricity. The ability of the petroleum industry to stay competitive is at stake. Clearly, such estimates could seriously impede natural gas use. Also, while it is difficult to quantify, the results of agency policy decisions based on these forecasts appear to be negatively impacting the petroleum industry.

Examples of Possible Actions:

Near-Term Priorities

- If the EIA forecast is to be used for planning and public policy formation by others, a methodology should be used that assures a more "consensus" forecast result.

Long-Term Structural Changes

Not Applicable

Issue M: Toxic Release Inventory (TRI) SIC Code Extension

Agencies Involved:

Department of Energy, Environmental Protection Agency

Description:

The EPA has publicly announced plans to broaden the base for reporting under Section 313 of the Superfund Amendments and Reauthorization Act of 1986. Reporting is currently limited to manufacturing industries (SIC 20-39). The EPA is planning to expand the Toxic Release Inventory (TRI) program to the Oil and Gas Exploration and Production (E&P) industry, SIC 13. In addition, EPA's proposed regulations have included releases which are allowed by existing permits.

Impact on Industry Competitiveness:

The net impact of this extension will be to decrease domestic production and increase energy imports. Expansion of the TRI program to E&P will create a significant burden – estimated at a first year cost of over \$200 million and a subsequent, ongoing cost of over \$100 million per year. The vast majority of E&P facilities are widely scattered in sparsely populated areas and are small sources of emissions. Much information on E&P chemical usage and on unplanned releases is already available through other sources, including existing EPA and state environmental regulations. In addition, reporting reinjected water as a “toxic release” misleads the general public.

Examples of Possible Actions:

Near-Term Priorities

- Review impact of Section 313 expansion on E&P activities, including domestic production.
- Limit expansion of Section 313 reporting to areas where coverage is cost-benefit justified and not already available from other sources.
- Coordinate collection with existing agencies.

Long-Term Structural Changes

- Coordinate data collection among government agencies to eliminate requirements which are not cost-benefit justified or are duplicative.

Issue N: Different Agency Definitions and Classifications for Chemical Products

Agencies Involved:

Occupational Safety and Health Administration (OSHA) and Department of Transportation (DOT).

Description:

OSHA and DOT developed definitions and classification systems for chemicals independently of each other. Definitions of many basic terms used by both agencies (and EPA) directly contradict each other and lead to confusion among employees and the need for more specialized training.

A drum of chemical shipped to a warehouse will be labeled as a Class 3 Flammable liquid in accordance with DOT regulations. The same drum of chemical inside a warehouse will be identified and labeled as a Class 2 Combustible liquid in accordance with OSHA regulations. Both agencies use similar terms to describe chemical products (combustible, flammable, corrosive, hazardous, toxic, etc.), but define the terms differently. Therefore, the same chemical products are identified and labeled differently dependent on which agency regulations are being met at the time.

Impact on Industry Competitiveness:

- Increases the amount of training that must be provided to employees with regard to chemical safety.
- Increases the amount of time required from industry to meet OSHA and DOT compliance requirements.
- Increases the amount of time and money spent on labeling and placarding chemicals to meet OSHA and DOT specifications.

Examples of Possible Actions:

Near-Term Priorities

- DOT and OSHA should develop one classification system for chemicals, which should be used by all agencies. The agency regulations will differ with regard to chemical handling, but the terms used should have the same definitions. Although the Environmental Protection Agency regulates the handling of waste (not chemical product), it does use some of the same terms as DOT and OSHA.
- EPA's definition of terms should be in agreement with OSHA and DOT.

Long-Term Structural Changes

- Interagency committee should be established to review new regulations from DOT, OSHA, and EPA and verify that definitions are consistent and that the regulations do not directly contradict another agency's regulations. If the agencies cannot agree on definitions, they should use different words to avoid confusion and additional work on the part of regulated community.

Issue O: Conflicting Regulations Relating to the Handling of Explosives

Agencies Involved:

Bureau of Alcohol, Tobacco, and Firearms (BATF), Department of Transportation (DOT), Occupational Safety and Health Administration (OSHA), and Environmental Protection Agency (EPA).

Description:

The storage, transportation, and disposal of explosives and power charges is covered by four agencies at different times during the transportation, storage, and disposal of these devices, and at times the agencies regulate the same material differently. DOT has some devices that BATF does not consider as explosive devices, yet when disposal of these materials occurs, EPA regulates these as explosive waste, which is considered a hazardous waste. DOT and OSHA also have overlapping regulations and at times each agency refers to another agency's regulations.

Impact on Industry Competitiveness:

A quick example of direct cost associated with the overlapping regulations is under shipping. To transport these materials when considered a saleable product is \$0.06 per mile. The exact same material, if it is now considered a waste, is in excess of \$3.00 per mile (because now you are shipping a hazardous waste). This change from a saleable product to waste could be for many reasons such as: the location no longer needs the material, the material could have been damaged during shipment, etc. Two locations in the United States accept this material for disposal, one in Iowa and one in Louisiana, so shipping becomes a major charge.

Examples of Possible Actions:

Near-Term Priorities

- Get BATF and EPA to utilize comparable regulatory schemes for the material. If BATF does not consider the material to be an explosive, EPA should not regulate the material as an explosive waste, which is by definition hazardous. Allow the company to dispose of non-explosives (according to BATF regulations) as non-hazardous industrial waste.

Long-Term Structural Changes

- Reorganize the regulatory framework so agencies with overlapping jurisdictions get together and draft regulations that are consistent, and multiple reporting and/or multiple different requirements are done away with.

Issue P: Publication of Pipeline Form 2 Data

Agencies Involved:

Energy Information Administration (part of the Department of Energy), and Federal Energy Regulatory Commission (FERC).

Description:

The federal government has stopped the publication of a useful statistical compilation of the FERC Form 2 because of a lack of coordination between two agencies. The Energy Information Administration (EIA) formerly published a compilation of interstate natural gas pipeline Form 2. This publication, *Statistics of Interstate Natural Gas Pipeline Companies*, was last published in 1992, and was widely used within the pipeline community, and indeed the entire natural gas industry, as a handy summary of a lengthy form that pipelines filed annually with the FERC. Although the document was widely used within the industry, the two government bodies involved, FERC and EIA, stopped the publication because agreement could not be reached on funding the effort.

Impact on Industry Competitiveness:

While industry is still required to submit their information, the failure to publish the aggregated results diminishes the ability of industry participants to evaluate trends and competitive factors.

Examples of Possible Actions:

Near-Term Priorities

- Encourage the two agencies to seek a resolution of the funding issue.

Long-Term Structural Changes

Not Applicable

Issue Q: IRS Section 482 Transfer Pricing Regulations

Agencies Involved:

Internal Revenue Service, Department of Justice, and Federal Trade Commission.

Description:

U.S. multinational companies that produce drilling and production equipment are required under U.S. tax rules (and most non-U.S. taxing jurisdictions) to use "arm's length pricing" on transactions with related companies. This is especially important on transactions between companies operating in different taxing jurisdictions because it affects the amount of taxable income reported in each jurisdiction.

The Internal Revenue Service recently issued new rules requiring that U.S. taxpayers compare their results of operations with the results for comparable companies undertaking comparable transactions as a method of proving that inter-company transfer pricing policies are in fact "arm's length." If the U.S. taxpayer's results are outside the range, an adjustment to U.S. taxable income can be made.

An excellent source of comparable data would be competitors of the U.S. taxpayer. However, any discussion of pricing policies or profitability measures would run afoul of antitrust rules and either the Department of Justice or the Federal Trade Commission would object. So, taxpayers are not able to seek out the information necessary to fully comply with IRS requirements because of onerous restrictions imposed by other agencies of the U.S. government.

Impact on Industry Competitiveness:

The requirements for non-U.S. multinationals are not as onerous, allowing them to price their products more competitively.

Examples of Possible Actions:

Near-Term Priorities

- Department of Justice/Federal Trade Commission should issue separate or joint guidelines that allow exemption from antitrust enforcement for any general discussions among competitors of "arm's length pricing" policies.

Long-Term Structural Changes

- Revoking of IRS's current transfer pricing rules, to be replaced with rules allowing for less complicated allocation of profits. An alternative action would be the relaxation of antitrust rules to allow companies access to comparable data needed to comply with current rules.

Issue R: Conflicts in Diesel Fuel Regulation— Problematic dyeing of non-taxable diesel fuel

Agencies Involved:

Internal Revenue Service (IRS) and Federal Aviation Administration (FAA).

Description:

The IRS requires that diesel fuel destined for non-taxable use be dyed red. Jet fuel is not included in this regulation, but the FAA is concerned that the required high concentration of dye leads to inadvertent dyeing of jet fuel, which is of the same boiling range.

Impact on Industry Competitiveness:

Introduction of adulterant into jet fuel.

Examples of Possible Actions:

Near-Term Priorities

- The IRS should lower the required concentration of dye.

Long-Term Structural Changes

Not Applicable



The Secretary of Energy

Washington, DC 20585

November 7, 1995

Mr. H. Laurance Fuller
Chairman, National
Petroleum Council
1625 K Street, NW
Washington, DC 20006

Dear Mr. Fuller:

I would like to express again my appreciation for the candid discussion with and the insights from the members of the Coordinating Co-Chairs' Committee of the National Petroleum Council. The important outcomes of our discussion focus on implementing the recommendations in the Council's *Future Issues and Research, Development, and Demonstration Needs* reports.

Consistent with our discussions on Tuesday, we have agreed to several action items:

1. By December 1, 1995, the Department of Energy will identify appropriate Assistant Secretary-level representatives from the Environmental Protection Agency; Departments of State, Defense, Treasury, Commerce and Interior; the Council on Environmental Quality; and the National Economic Council to form a permanent working group. This working group, chaired by the Assistant Secretary for Fossil Energy, will address policy or regulatory issues identified by the Council that significantly affect industry competitiveness and require coordinated consideration or action by the Government. Participants from other agencies will be added as needed.

As a follow-on activity, I request that, by December 15, the Committee provide Assistant Secretary Patricia Godley with a list of specific top priority issues to be addressed by the working group. Once Assistant Secretary Godley receives the list, she will meet with the working group members to establish a schedule for addressing the issues with appropriate actions or responses to the Council. I will personally participate in this process as required.

2. By December 1, 1995, Deputy Assistant Secretary Reggie Spiller, working with the Department's Laboratory system, will complete an analysis of the Department's oil and natural gas research, development and demonstration portfolio using criteria identified in the Council's report on *Research, Development, and Demonstration Needs*. That review will be forwarded to the Council. Meanwhile, the Department will

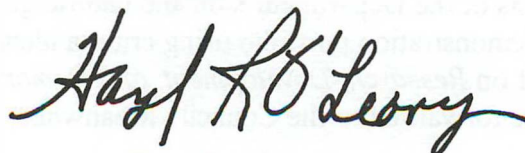
schedule a workshop with research managers from the industry. Patricia Godley will seek Council input on appropriate attendees from industry. The workshop will be scheduled for the week of December 11, or otherwise at the convenience of industry participants. The workshop will be held in Golden, Colorado, at the field office where management of the newly integrated natural gas and oil supply RD&D program will occur under the Department's strategic alignment initiative.

3. I will convene a national conference on the "Petroleum Industry and the Environment." Invitees will include representatives from industry, the environmental community and State and Federal Governments to discuss the role of the oil and natural gas industry in the U.S. economy; the environmental impact of industry activities; and appropriate and cost-effective means of mitigating such impacts while enabling the industry to accomplish its mission. This conference will build on the communication among industry stakeholders in the *Future Issues* study. Participants will be asked to recommend specific industry action and government policy or regulatory reform. This conference will be held during the first quarter of calendar year 1996.
4. By December 8, 1995, as requested by Committee members, the Department will prepare a fact sheet titled "DID YOU KNOW . . . ?" a display of little-known facts that make the oil and gas industry strategic to the United States.
5. We will facilitate participation by industry in the Administration's new XL program as discussed with Kathleen McGinty, Chair of the President's Council on Environmental Quality, at the Committee meeting on Tuesday.

I heard the Committee's commitment of collaboration. Oil and gas will remain a dominant part of this Nation's energy portfolio in the 21st Century. I remain committed to follow through on all of the actions forwarded to you with my letters of October 25, 1995. I commit to collaboration with the industry. I will refocus our work with the National Petroleum Council to achieve a secure energy future for the Nation.

Thank you for your strong leadership of the Council. Its most recent work will galvanize the industry's positive and effective role in shaping public opinion and a sound national energy policy.

Sincerely,



Hazel R. O'Leary



Department of Energy

Washington, DC 20585

JAN 05 1996

Mr. H. Laurance Fuller
Chair
National Petroleum Council
1625 K Street, N.W.
Washington, D.C. 20006-1604

Dear Mr. Fuller:

Please be advised that we have identified the initial members of an inter-agency working group who will address policy or regulatory issues of priority concern to the oil and natural gas industry as identified by the National Petroleum Council. Those members are:

- Bob Armstrong, Assistant Secretary for Land and Materials Management, Department of Interior.
- Shaun Donnelly, Deputy Assistant Secretary, Office of Sanctions and Commodities, Department of State.
- Shelly Fidler, Chief of Staff, President's Council on Environmental Quality.
- Patricia Godley, Assistant Secretary for Fossil Energy, Department of Energy.
- Josh Gottbaum, Assistant Secretary of Defense for Economic Security, Department of Defense.
- Elgie Holstein, Special Assistant to the President for Economic Policy.
- Mary Nichols, Assistant Administrator for Air and Radiation, Environmental Protection Agency.
- Ray Vickery, Assistant Secretary for Trade Development, Department of Commerce.

We look forward to the results of the survey of Council members regarding priority issues.

Very truly yours,

Patricia Fry Godley
Patricia Fry Godley
Assistant Secretary
for Fossil Energy

Mr. H. Laurance Fuller
Page 2

cc: Charles B. Curtis
Deputy Secretary
Department of Energy

Kyle Simpson
Associate Deputy Secretary
Department of Energy

Bob Armstrong
Assistant Secretary for Land and Materials Management
Department of Interior

Shaun Donnelly
Deputy Assistant Secretary
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Department of State

Shelly Fidler
Chief of Staff
President's Council on Environmental Quality

Josh Gottbaum
Assistant Secretary of Defense for Economic Security
Department of Defense

Elgie Holstein
Special Assistant to the President for Economic Policy

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Fossil Energy
U.S. Department of Energy

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Environmental Coordinator
Environmental and Regulatory Affairs
Ward Petroleum Corporation

NATIONAL PETROLEUM COUNCIL

An Advisory Committee to the Secretary of Energy

1625 K Street, N.W.
Washington, D.C. 20006-1604

December 15, 1995

Phone: (202) 393-6100
Fax: (202) 331-8539

TO ALL MEMBERS OF THE NATIONAL PETROLEUM COUNCIL

Dear Member:

In my letter of November 9, I proposed NPC's response to several immediate action items planned by Secretary O'Leary. One of these items implements the recommendation in the NPC Future Issues report that "government should improve coordination of policies affecting the oil and gas industry...through a working group of high-level government officials...." For our part, the Secretary asked for "a list of specific top-priority issues to be addressed by the working group" and Phil Carroll called a special meeting of the Future Issues Coordinating Subcommittee to prepare a list of specific issues.

To prioritize this list, the Council will act as a committee of the whole and respond by written ballot. Please find enclosed a ballot to record your recommendation for the top 5 issues for possible consideration by the newly formed interagency working group.

In preparing this list of issues for your consideration, the Subcommittee was guided by Secretary O'Leary's statement that "This working group, chaired by the Assistant Secretary for Fossil Energy, will address policy or regulatory issues identified by the Council that significantly affect industry competitiveness and require coordinated consideration or action by the Government." Within this framework, the Subcommittee sought to identify policy or regulatory issues relevant to all facets of oil and gas production, distribution, and use. The Subcommittee also sought issues that would have a short-term definable objective as well as an opportunity for longer term structural change.

The list is not represented as inclusive of all issues the interagency working group might address nor will it be the group's exclusive source of topics. Further, the accelerated process by which the Subcommittee prepared the enclosed list may have caused them to overlook some issue(s). The ballot provides you the opportunity to write in issues you feel are important and should have been included on the list.

Upon receipt of the completed ballots, the Subcommittee will tally the results. The complete list of issues, the Council's prioritization, and any comments and write-in issues members have added will then be provided to the Secretary. Copies will also be sent to all members of the Council.

Please complete and return your ballot to the NPC offices no later than the close of business Friday, January 5, 1996.

Yours truly,


H. Laurance Fuller
Chair

Enclosure

cc: Hazel R. O'Leary

NATIONAL PETROLEUM COUNCIL

Prioritization of Issues for Coordinated Consideration or Action by the Federal Government

INSTRUCTIONS

1. From the accompanying list, each NPC member is to select the 5 issues that he/she feels are most important for the interagency group to consider. The definition of importance is intentionally left for each member to determine. Areas that might be considered are: relevance to an individual company or industry segment, relevance to the national economy, amenability to resolution, etc. Please enter in the space below the number and an abbreviated title for the 5 issues you select.

If a member wishes to comment on any issue, to provide clarification, examples, references, etc., or to dissent with its inclusion or possible actions, please feel free to do so in an attachment to the completed ballot.

2. The interagency working group may wish to discuss some of the issues further with individual Council members and/or representatives of their organizations. If you feel strongly about an issue and would like to make someone available to the working group when the issue is addressed, please so indicate below.
3. Write-in issues are permitted if a member feels strongly about an issue that is not included on the list. For each write-in issue, please attach a description similar to that provided for the issues on the accompanying list.
4. While aggregated results will be provided to the Secretary, individual responses will **not** be considered proprietary.

BALLOT

Member's Name _____

Issue Number	Issue Title	Willing to Provide Individual to Discuss Issue (Please answer "Yes" or "No")

Write-In Issues (description attached)

Please return or telecopy this Ballot on or before January 5, 1996 to:

National Petroleum Council, 1625 K Street, N.W., Washington, D.C. 20006

Telecopy number: (202) 331-8539

Issues Designation

Issue write-ups attached to the ballot were numbered 1–18, as shown below. These write-ups were identical to those provided in the Results of Poll section of this report except for their numerical designation. The right hand column of the list below shows the redesignation of the issues (A–R) to reflect the prioritization vote of the NPC membership.

Issue 1	Unilateral U.S. Trade and Investment Restrictions	E
Issue 2	Regulation of Consumer Fuel Choice	A
Issue 3	Regulation of Industrial Emissions	G
Issue 4	Health and Safety Regulation	J
Issue 5	Conflicts Involving Pipeline Siting	K
Issue 6	Access to Resources	C
Issue 7	Capture the Benefits of Recent Initiatives in Environmental Regulation	H
Issue 8	Global Climate Change	F
Issue 9	Natural Resource Damage Assessment	I
Issue 10	Government Use of EIA Price Forecasts	L
Issue 11	Cumulative Impact of Regulations	B
Issue 12	IRS Section 482 Transfer Pricing Regulations	Q
Issue 13	Expensing Geological and Geophysical (G&G) Costs	D
Issue 14	Conflicts in Diesel Fuel Regulation—Problematic dyeing of non-taxable diesel fuel	R
Issue 15	Toxic Release Inventory (TRI) SIC Code Extension	M
Issue 16	Different Agency Definitions and Classifications for Chemical Products	N
Issue 17	Conflicting Regulations Relating to the Handling of Explosives	O
Issue 18	Publication of Pipeline Form 2 Data	P

National Petroleum Council
Response of Members to Poll on Prioritization of Issues for
Coordinated Consideration or Action by the Federal Government

MEMBER	ISSUE																	
	A. Regulation of Consumer Fuel Choice	B. Cumulative Impact of Regulations	C. Access to Resources	D. Expensing Geological and Geophysical (G&G) Costs	E. Unilateral U.S. Trade and Investment Restrictions	F. Global Climate Change	G. Regulation of Industrial Emissions	H. Benefits of Initiatives in Environmental Regulation	I. Natural Resource Damage Assessment	J. Health and Safety Regulation	K. Conflicts Involving Pipeline Siting	L. Government Use of EIA Price Forecasts	M. Toxic Release Inventory (TRI) SIC Code Extension	N. Definitions and Classifications for Chemical Products	O. Regulations Relating to the Handling of Explosives	P. Publication of Pipeline Form 2 Data	Q. IRS Section 482 Transfer Pricing Regulations	R. Conflicts in Diesel Fuel Regulation
ABREW, Frederick H.	X		X				X				X	X						
ALCORN, Charles W., Jr.	X	X		X	X		X											
ALCORN, George A.		X	X	X				X		X								
*ALLEN, W. W.	X			X	X	X		X										
ALLISON, Robert J., Jr.		X	X	X			X						X					
*ARMSTRONG, Robert G.		X	X	X				X	X									
ARNOLD, O. Truman	X	X					X				X							X
BAILEY, Keith E.	X						X	X		X	X							
BAIRD, D. Euan		X						X		X				X	X			
BALLARD, William W.	X	X	X	X		X												
BEACH, Roger C.	X	X	X	X	X													
BEATTY, Michael L.	X				X			X			X						X	
*BEGHINI, Victor G.	X	X	X			X	X											
BIEGLER, David W.		X	X					X		X		X						
BLACKBURN, James B., Jr.	X	X			X			X			X							
*BOWLIN, Mike R.		X	X		X	X			X									
BRINKLEY, Donald R.	X		X			X		X	X									
BURTON, Charles William	X	X	X	X	X													
CAMPBELL, Robert H.	X	X			X	X	X											
CARROLL, Philip J.	X	X	X			X	X											

* Submitted write-in issues and/or comments which follow this spreadsheet.

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CHANDLER, Collis P., Jr.		X	X	X				X	X									
CHESEBRO', Stephen D.		X					X				X	X		X				
CRUIKSHANK, Thomas H.		X			X			X							X		X	
CURRY, Keys A., Jr.	X				X	X	X	X										
DAVIDSON, George A., Jr.	X						X			X	X							
DeCRANE, Alfred C., Jr.	X	X			X	X												
DEMING, Claiborne P.	X	X	X			X			X									
DERR, Kenneth T.	X				X	X	X		X									
EMISON, James W.	X	X	X			X		X										
FARMAN, Richard D.	X	X								X		X				X		
FRI, Robert W.	X	X			X	X								X				
*FULLER, H. Laurance	X				X	X	X			X								
GIBBS, James A.	X	X	X	X	X													
GUNN, Robert D.	X		X			X		X	X									
HADDOCK, Ron W.	X		X			X	X		X									
HALL, John R.		X	X		X	X			X									
HALL, Patricia M.			X	X					X			X	X					
HAMILTON, Frederic C.	X	X		X	X	X												
HEMMINGHAUS, Roger R.	X		X			X				X	X							
HENDRIX, Dennis R.	X							X			X	X				X		

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HILLIARD, C. Paul		X		X		X			X			X						
HOWSON, Robert E.	X				X						X		X			X		
HUFFINGTON, Roy M.		X	X	X	X	X												
HUTCHISON, James M.		X	X	X				X	X									
JONES, Jon Rex	X	X	X	X									X					
JULANDER, Fred C.				X		X						X	X			X		
KENNEDY, Bernard J.		X		X					X			X	X					
LAY, Kenneth L.				X	X						X	X	X					
LICHTBLAU, John H.	X		X		X	X			X									
McPHERSON, Frank A.		X	X				X		X				X					
MAGUIRE, Cary M.	X	X	X	X			X											
MAYER, Frederick R.		X	X	X				X	X									
MITCHELL, George P.	X	X	X				X					X						
MUNRO, John Thomas	X	X	X							X								X
NICANDROS, Constantine S.	X		X		X		X	X										
NICHOLS, J. Larry		X	X	X			X						X					
NOTO, Lucio A.	X				X	X	X		X									
PALMER, C. R.		X	X		X			X		X								
PARKER, Robert L., Sr.	X		X		X			X		X								
*PATE, James L.		X	X	X			X	X										

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PITTS, L. Frank	X			X			X			X			X					
RAYMOND, Lee R.	X		X		X	X	X											
ROBERTSON, Corbin J., Jr.	X		X			X						X						
*ROSENBERG, Henry A., Jr.	X	X					X			X								
RUSSELL, John R.		X	X	X	X										X			
SCHULER, G. Henry M.	X		X		X	X					X							
SEWELL, S. Scott			X						X									
SHACKOULS, Bobby S.	X			X							X	X	X					
SIMMONS, Donald M.	X				X		X			X								X
STEWART, H. Leighton		X	X	X						X			X					
*TERRY, Richard E.	X											X						
TRUE, H. A., III		X	X	X						X	X							
WARD, L. O.	X		X	X				X		X								
WILSON, Mary Jane	X	X		X			X						X					
WINN, Charles C.		X		X				X	X	X								
WOODS, James D.			X		X									X	X		X	
Total Count of Votes	48	45	44	31	31	27	26	23	19	18	14	14	13	4	4	4	3	3
Percentage of Respondants	63	59	58	41	41	36	34	30	25	24	18	18	17	5	5	5	4	4

* Submitted write-in issues and/or comments which follow this spreadsheet.

Write-In Issues and Comments Submitted by NPC Members

COMMENT BY W. W. ALLEN

Issue H, Capture the Benefits of Recent Initiatives in Environmental Regulation, and Issue B, Cumulative Impact of Regulations, could be combined into a single issue on regulatory reform, as the write-ups for both issues propose similar changes in the approach to regulation.

COMMENT BY ROBERT G. ARMSTRONG

I would like to further expand on Issues B and C, which I had as my first two priority items. These two issues deal with access and regulations.

Being located in New Mexico, my company has much interaction with the Department of Interior, Bureau of Land Management. I find that both through regulations and interpretation of regulations by local personnel, it is becoming more costly to operate on BLM leases and, in many instances, leases are burdened by stipulations or notices which oftentimes deter access. Rather than encourage development, the Bureau of Land Management hampers exploration with regulations and conflicting policies. In those states that have significant BLM ownership of minerals, many operators downgrade federal leases for exploration, and in some instances, avoid operations totally on federal leases.

I appreciate the opportunity to participate in this survey, and I hope that some consensus is derived from the responses.

WRITE-IN ISSUE BY V. G. BEGHINI

Issue: The Impact of United Nations or European Union Forums and other international bodies on the sovereign decision process of oil and gas operations.

Agencies Involved:

State, Energy, Commerce, EPA – others possible

Description:

The decisions of various international bodies regarding energy related activities are becoming significant issues. Although Global Climate Change is the most overt and publicized issue in this arena, other areas are becoming critical. Areas such as international standards which supersede or alter API standards, platform

decommissioning, Carbon Taxes, fuel design, and other environmental and marine related activities all have an impact on operating systems and costs.

Although various government agencies and task forces are involved in each of these relevant issues, it appears we could use a higher level of coordination with industry to reach a cohesive strategy having a greater degree of consensus.

WRITE-IN ISSUE BY M. R. BOWLIN

Issue: National Fuel Preference and Mandate Issues

Agencies Involved:

Departments of Energy, State, Treasury, Agriculture, EPA, NOAA, Council of Economic Advisors, CEQ and State Governments.

Description:

Provisions of the Clean Air Act and the Energy Policy Act of 1992, as well as international treaty obligations arising out of global warming trends, taken together, increasingly weigh against the continued use of petroleum as a transportation fuel and energy source generally. National and international economic competitive implications, as well as effects on the domestic social fabric, must be understood before major changes in the use of energy are made.

Impact of Industry Competitiveness:

In the longer run, this constellation of legal limits on the use of petroleum could have profound effects on the industry, our nation, and the world economy.

Examples of Possible Actions:

Near-Term Priorities

Conduct collaborative studies of the economic and social effects of the alternative fuel preferences and mandates; develop and advocate alternative regulatory and statutory provisions. Provide a continuing forum for government wide review of existing fuel use patterns and alternatives, and the economic and social implications of changes.

COMMENT BY BETTY ANTHONY FOR H. LAURANCE FULLER

In reviewing the issue papers, it seemed that several of them were exploring different aspect of a broader issue, namely regulatory reform. Therefore, I recommend that you combine the issue discussion for issues B, H, and J in one paper on regulatory reform.

As currently drafted, you have separate papers on health and safety regulations, capturing the benefit of recent initiatives in environmental regulation, and the cumulative impact of regulations. However, the main thrust of the possible actions for these Issues is a change in the approach to regulation to incorporate the following:

- sound science;
- cost-effectiveness analyses;
- reasonable risk assessment;
- flexibility through alternative compliance measures; and
- elimination of duplication within regulations or resolution of conflict between regulations.

All of the above are the fundamental elements of the type of regulatory reform that industry has been seeking. Thus, it seems logical to combine these papers under the heading regulatory reform and use some of the specifics from each to highlight specific industry concerns.

WRITE-IN ISSUE BY JAMES L. PATE

Issue: Eliminate or Significantly Alter the AMT

WRITE-IN ISSUE BY HENRY A. ROSENBERG, JR.

Issue: Environmental Compliance Cost Inequality

Agencies Involved:

Executive, Congress, Department of Energy, Department of Commerce, Environmental Protection Agency

Description:

Refineries located in the U.S. face increasingly stringent environmental laws and regulations. According to a 1993 National Petroleum Council study (*U.S. Petroleum Refining*), the domestic petroleum refining industry must invest \$37 billion from 1991 through the year 2000, and an additional \$14 billion from 2001 to 2010, to comply with environmental regulations.

The same NPC study concluded that foreign regions today are where the U.S. was roughly 5–20 years ago in terms of environmental regulations. The result is foreign refiners are able to produce petroleum products for less cost than U.S. refiners given that they do not share the same economic burdens imposed by government mandates. Foreign refiners enjoy further competitive advantage by being able to sell

premium high-octane gasoline in the U.S. and dump their remaining "dirty" gasoline in other world markets. This puts the U.S. refining industry at a significant competitive disadvantage because of the high quality standards that domestic refiners must satisfy for all refined gasoline.

The impact of this economic advantage for foreign refiners is already being felt in the U.S. as 30 domestic refineries have closed since 1992, resulting in the loss of over 1 million barrels per day of domestic refining capacity. The loss of refining capacity and the elimination of thousands of refining jobs is more than just a detriment to the U.S. economy. It is also a severe threat to our national security by threatening our ability to satisfy the needs of both military and civilian energy demands during times of crises. In addition, our continuing reliance on both imported crude oil and refined products makes the U.S. further dependent upon the often unstable countries that control these resources.

Impact on Industry Competitiveness:

The U.S. government's continuous unilateral imposition of costly environmental regulations undermines the ability of domestic refiners to survive in the intensely competitive global petroleum marketplace. The competitive advantage afforded foreign refiners by not having to comply with equivalent environmental, health and safety standards allows them to produce refined products at a lower cost and set low U.S. gasoline market prices; thus, inhibiting domestic refiners from recovering their capital costs. The widespread impact to U.S. refineries has been layoffs, reductions, and closures.

Examples of Possible Actions:

- **Regulatory Reform** – Enactment of legislation that would ensure that existing and future environmental regulations are consistent with appropriate risk assessment and cost/benefit analyses and are based on the most accurate information available.
- **Section 232** – The President has already made a finding under Section 232 of the Trade Expansion Act of 1962 that imports of refined products are a threat to national security, although no specific response was taken in response to the finding. The Administration could take action to reduce the national security threat posed by such imports.
- **WTO Trade and Environment Committee** – The U.S. representatives to the World Trade Organization ("WTO") Trade and Environment Committee could advance ways in which trading rules may be used to remedy the environmental compliance cost differential between countries. For instance, the WTO could recognize the legitimate use of domestic countervailing duty law to remedy the "subsidy" provided to companies that are not required to comply with domestic environmental laws that have been enacted but are intentionally not enforced.
- **Environmental Equalization Fee on Refined Petroleum Products** – The President could promulgate or Congress could enact a fee on imported refined products in

an amount sufficient to offset the level of additional costs that U.S. refiners must pay to comply with U.S. domestic environmental laws and regulations.

COMMENT AND WRITE-IN ISSUE BY RICHARD E. TERRY

Comment on: Issue A, Regulation of Consumer Fuel Choice

However, we do support the resolution approved by the Natural Gas Council for NGV strategy which follows:

1. The Natural Gas Council recognizes that the use of natural gas in high fuel use fleet vehicle applications is the key NGV market opportunity for the natural gas industry, provided these vehicles can meet or exceed alternative fuel requirements and can economically compete with conventionally fueled vehicles.
2. Natural gas vehicles offer the potential to help satisfy the growing U.S. energy demand associated with fleet vehicle usage, while meeting the current and future requirements faced by fleet customers.
3. The Natural Gas Council supports a strategy that targets economic, high fuel-use fleets of all sizes that are competitively served by on-site and open access fueling facilities. This application represents a substantial and potentially profitable market for all segments of the gas industry and NGVs in use by 2010, and an additional 1.2 TCF of gas use annually.
4. The Natural Gas Council supports NGV applications such as high-fuel use fleets, which have the potential to be economically competitive in the marketplace as judged by the customer, without further government mandates or broad gas-industry rate-based financing of infrastructure. The Council recognizes that in the early stages of development of a new market, some financial incentives based on quantifiable benefits will be necessary.

The second sentence of paragraph four does recognize a very limited role for certain financial incentives.

Write-In Issue: Fair Allocation of DOE & R&D Budget-Increase for Natural Gas End Uses.



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